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Japan - Commerce Treaty VI

DEPARTMENT OF STATE

Memorandum of Conversation

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DATE: July 25, 1955

SUBJECT: Taxation of Foreign Nationals in Japan

PARTICIPANTS: Howard L. Parsons - MA
Thomas E. Vettel - MA
Joseph P. Nagasaki - MA
Stanley Metzger - L/E
Harlin Robinson - C/D
Arnold Fraleigh - MA
Herman Walker - TAD

Treasury - Ralph Hirschtritt
Eldon King
Mr. Kahn-Ross
Commerce - Saul Baron

ISA - Roland Randall
DEPARTMENT OF STATE A/CDC/MR

COPIES TO: Herman Walker - TAD

REVIEWED BY [Signature] DATE 8-8-55

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All participants above.
FE - (cc)
MA - 4
American Embassy, Tokyo (cc)
DLT - 2

Mr. Parsons briefly reviewed the problem as it has been outlined in Embassy Tokyo's despatch 1518 of June 16, 1955 and related correspondence. He observed that the precise effect of the end of special tax privileges for foreign nationals in Japan is not yet clear and that further investigation may be necessary before a course of action can be decided upon. He thought that this initial meeting should bring out the questions which should be asked of Embassy Tokyo.

Mr. King of Internal Revenue observed that while the problem of confiscatory tax rates, such as prevails in Japan, is not often encountered, a tendency to end special taxation privileges for foreigners is practically a world-wide phenomenon. He cited the case of France which, in its economic distress after the war, gave special taxation privileges for foreigners in order to attract foreign businessmen and capital. As France's economic situation improved, the privileges were abolished. Mr. King added that the effect of this on paper, and in the anticipation of the foreign businessmen, was much worse than the actual result. It developed that after having formally expunged the special privileges, for reasons of national pride, the French tax authorities continued nevertheless to accord sympathetic treatment to foreign businessmen in France.

Mr. Metzger explained the applicability of the FEN Treaty to the Japanese tax problem. He observed that this treaty provides for "national treatment" for Americans in Japan but does not inhibit Japan from applying a severe tax program to Americans if the same program is applied non-discriminately to her own nationals.

Mr. Baron

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Mr. Baran thought this the crux of the problem since there is evidence that Japanese businessmen are able to get surprisingly generous exemptions. Miss Vettel cited a case of an American businessman who through negotiation obtained such an exemption. Mr. Baran said that it would be extremely difficult to persuade the Japanese to reveal criteria for such negotiated settlements. An added difficulty is that every foreigner's return is subject to punctilious scrutiny while the Japanese nationals' returns are merely spot checked. However, Mr. Baran felt that the solution might be to get the Japanese to formalize its standards for exemptions so that tax settlements, if they are to be negotiated, may be based on rules and regulations for everyone to see.

There was general agreement that whatever solution might be arrived at, preferably maintaining as many remnants as possible of the present privileges, would be difficult to sell to Japan. However, some such basis must be sought.

An inquiry was raised as to whether Japan is within her rights in taxing income not earned in her remitted to Japan. Mr. King thought that she was, since the U.S. has a similar policy regarding foreigners resident in the U.S. On the other hand, a good many countries are more lenient than Japan and the U.S. in this respect. The U.K., for example, taxes resident aliens only on that amount remitted to the U.K. Canada has a very low tax on dividends earned in Canada and remitted abroad. France, as mentioned previously, gives quite lenient treatment to foreign businessmen, although this policy has no formal reflection in its law. Mr. King said that the U.S. in general taxes foreign residents on income earned anywhere in the world.

Mr. Parsons suggested that these discussions showed the scope of the problem and the need for further study before a course of action is decided. He proposed the formation of a committee, composed of one representative from each interested agency under the chairmanship of Mr. Echo-Jones of Treasury, to meet again in the near future to draft specific questions to be examined in Tokyo and Washington.

and recommendations

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